

Information on Washington's Tax Structure



Retail Sales Tax

The information contained in this fact sheet is current as of the date of this publication and provides general information about the retail sales tax. It does not cover every aspect of the tax. In addition, it does not alter or supersede any administrative regulations or rulings issued by the Department.

RETAIL SALES TAX

The retail sales tax is Washington's principal tax source. Including the related use tax, it produced nearly \$5.3 billion in state revenue during Fiscal Year 1999, which represented approximately 48 percent of state taxes deposited into the general fund. In addition, local retail sales and use taxes generated \$1.5 billion for local governments. The local sales tax is an important funding source for local government programs, second only to the property tax.

TAX RATE

Retailers collect the retail sales tax which is composed of a state portion, a local portion, and other taxes. The state retail sales tax rate is 6.5 percent. Local retail sales tax rates range from 0.5 to 1.7 percent and may contain six elements:

- ◆ Basic 0.5 percent city/county tax, effective in all areas of the state;
- ◆ "Optional" city/county tax, ranging up to an additional 0.5 percent, used by 38 counties and all but a few cities;
- ◆ Public Transportation Benefit Area (PTBA) tax for the support of local transit systems may be levied at a rate up to 0.6 percent;
- ◆ Criminal justice tax of 0.1 percent imposed in certain counties with voter approval;
- ◆ Public facilities districts may levy a tax of 0.1 percent to fund sports and entertainment centers; and

- ◆ A 0.1 percent tax to fund construction of juvenile detention facilities with voter approval.

Other taxes to consider, in addition to the retail sales tax, are:

- ◆ Regional Transit Authority (RTA) tax of 0.4 percent, collected on sales made in parts of King, Pierce, and Snohomish Counties; and
- ◆ King County Food and Beverage tax of 0.5 percent, collected on sales of food and beverages in King County by restaurants, taverns, and bars.

DISTRIBUTION OF RETAIL SALES TAX

Retail sales tax funds are used by the government entity that imposes the tax. The state tax is deposited in the state general fund, while city and county taxes are returned to the local governments. City and county governments use these taxes for general expenditure programs. The transit tax must be used for the operation of local transportation systems.

Local revenues are returned to taxing districts based on the location of the sale. For sales occurring within cities, the county government receives 15 percent of both the basic and optional local sales taxes (if it levies the same rate of tax as the city), while the city receives 85 percent of the local tax receipts. Counties receive all the local revenue for sales in unincorporated areas. As reimbursement for the cost of collection, the Department of Revenue retains 1.0 to 1.5 percent of local taxes collected.

LOCAL CODING OF SALES

Businesses must report state and local sales tax collections on the *Combined Excise Tax Return*. To ensure local governments receive the correct amount of local taxes, retailers must code their sales according to the locations in which retail sales are made.

Sales of goods and merchandise are coded to the location of the retail outlet from where the purchase or delivery is made. For most retailers, this is the place of business. However, businesses making deliveries from their warehouse directly to customers will use their warehouse location for local tax coding and rate purposes. If a buyer picks up the item, the sale is coded to the retail outlet where the item was obtained. Labor and services are coded according to where they are primarily performed. If an installation charge is normally added to the cost of an item, the entire charge for that item is coded to the site where it is installed.



If goods are being delivered into Washington from a point outside of the state and a local in-state facility, office, outlet, agent or other representative participates in the transaction in some way, the location of the local in-state facility, etc., will determine the place of sale for purposes of the local sales tax. If there is no local Washington facility, etc., the location of the customer will determine the location code.

The local sales tax rate on the **lease or rental** of tangible personal property depends whether the lease/rental involves periodic payments. If a single payment is made, the lessor's place of business determines the application of the local tax. If the item is leased for an extended period of time and the lessee contracts to make periodic payments, the local sales tax is coded as follows: (1) leases for business purposes will be coded to the lessee's principal place of business and (2) leases to private individuals will be coded to the lessee's place of residence.

To help businesses correctly report their local sales tax, the Department mails the *Tax Return Information and Local Sales and Use Tax Changes* flyer each quarter with the tax return, which lists all local

jurisdictions, their location codes, and the current local tax rates.

If you are unsure about which local code you should be using, you may want to take advantage of the Department of Revenue's Geographic Information System (GIS). The GIS automatically searches for and identifies the proper location code and tax rate when you enter the U.S. Postal Service address. For locations in King, Pierce, and Snohomish counties, GIS identifies whether the location is within the RTA boundaries. Department of Revenue's GIS is available through the Department's Internet web site at <http://dor.wa.gov> under the "Services" hot button.

TAX BASE - DEFINITION OF RETAIL SALE

State law defines the activities that are subject to the retail sales tax. Generally speaking, all purchases of tangible personal property by consumers for their own use, are considered retail sales. In addition, a variety of services are also taxable, such as the improvement of real or personal property, amusement and recreational businesses, as well as certain other personal services and activities, including lawn maintenance and physical fitness activities. Personal and professional services are generally excluded from sales tax.

NOTE: If the goods are **purchased for resale**, then the buyer may give the seller a Resale Certificate and the sale will be considered a wholesale sale, not subject to sales tax. A sample of the Resale Certificate is shown on page seven.

The following transactions are just a few examples of retail sales subject to sales tax.

Construction Services:

- ◆ Installing, repairing, cleaning, improving, constructing, and decorating real or personal property for consumers;
- ◆ Constructing and improving new or existing buildings and structures;
- ◆ Cleaning, fumigating, razing or moving structures, including painting and papering, cleaning and repairing furnaces and septic tanks, and snow removal;



- ◆ Clearing land and moving earth;
- ◆ Charges for materials used by public road contractors and other government contractors while constructing or repairing interstate highways and county and city roads;
- ◆ Charges for materials used by contractors while constructing or repairing structures for the federal government and local housing authorities;
- ◆ Landscape maintenance and horticultural services (excluding farmers); and
- ◆ Renting equipment with operators.

Personal Services:

- ◆ Physical fitness activities;
- ◆ Tanning;
- ◆ Tattooing;
- ◆ Turkish and steam baths, including hot tubs;
- ◆ Dating and escort services; and
- ◆ Charges for lodging and the use of real property for periods of less than one month from hotels, motels, and similar establishments which provide accommodations.

Recreation Services:

- ◆ Amusement and recreational businesses, including golf, billiards, bowling, and similar participatory activities;
- ◆ Service charges on tickets to professional sporting events; and
- ◆ Day trips for sightseeing.

Miscellaneous Services:

- ◆ Towing and parking automobiles;
- ◆ Renting or leasing tangible personal property;
- ◆ Competitive and network telephone services;
- ◆ Charges by abstract, title insurance, escrow, and credit bureau businesses, including tenant screening services.

SALES TAX EXEMPTIONS

Numerous items and industries are exempt from the retail sales tax. The following list, though not all-

inclusive, provides a brief explanation of exemptions from the retail sales tax. For more detailed information, please refer to the Publications and Rules section at the end of this fact sheet.

◆ **Agricultural Activities and Equipment –**

Numerous agricultural activities are exempt from the retail sales tax. A few of those exemptions include, but are not limited to: auction sales made by or through auctioneers of goods that have been used in conducting a farm activity, when the seller is a farmer and the sale is held on a farm; repair of farm machinery used exclusively outside Washington, including parts and labor; poultry, beef and/or dairy cattle used in producing an agricultural product (such as meat, eggs, milk, etc.). (WAC 458-20-122; -209; -210; -239)

- ### ◆ **Family Consumer Expenditures –** Many items consumed by families are exempt from the retail sales tax. The following are just a few of the exempt items: food products for human consumption, prescription drugs, hearing aids and parts prescribed by licensed dispensers, and newspapers. (WAC 458-20-143; -18801; -244)

- ### ◆ **Fuel –** The retail sales tax does not apply to motor vehicle fuel that is (1) used in aircraft for research, development and testing purposes; (2) purchased for the purpose of public transportation; (3) purchased by a private, nonprofit transportation provider who is certified as such; or (4) taxable under the motor vehicle or special fuel tax. In addition, certain purchases of other fuels are not subject to sales tax, such as diesel fuel used in commercial deep-sea fishing and deep-sea charters and alcohol fuel used in vehicles and farm machinery. (WAC 458-20-126)

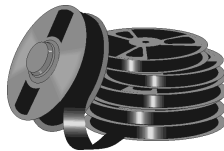
- ### ◆ **Government Activities –** Direct purchases by the federal government, including sales to a foreign government or to any department thereof, and sales by the military on federal bases are exempt from the retail sales tax. (WAC 458-20-190)

- ### ◆ **Interstate and Foreign Commerce –** Persons engaged in the business of operating as a private or common carrier by air, rail or water in interstate or foreign commerce have specific exemptions from the retail sales tax. For hire motor carriers operating in interstate or foreign commerce also have specific exemptions. (WAC 458-20-174; -175)

◆ **Interstate and Foreign Sales and Sales to Nonresidents** – All sales delivered to consumers outside Washington are exempt from the retail sales tax. Likewise, sales of items for use in Alaska, Hawaii and noncontiguous territories of the United States are exempt, if delivered for direct shipment out of state. In addition, sales of products in Washington for use outside Washington to residents of states, Canadian Provinces or U.S. territories that impose a sales tax of less than three percent are exempt. (Refer to *Excise Tax Advisory 316.08.193* for a list of qualifying states, provinces and territories.)

◆ **Manufacturer's Machinery and Equipment Exemption** – Sales of machinery and equipment, including cogeneration and pollution control equipment, and repair and replacement parts having a useful life of at least one year, used directly in a manufacturing operation are exempt from sales tax. This exemption also applies to the labor and services involved in the installation, repair, and maintenance of the machinery and equipment. (Refer to *Information on Washington's Tax Structure – Manufacturer's Sales/Use Tax Exemption*.)

◆ **Motion Picture and Video Production Companies** – This exemption applies to the rental of production equipment and sales of production service to motion picture companies or video production businesses where the motion picture or video tape will be exhibited, sold or broadcast by someone other than the company producing it. Production of erotic material does not qualify. (Refer to Special Notices – *New Tax Exemptions for Motion Picture and Video Production Companies* and *Expanded Exemptions for Motion Picture and Video Production Companies*.)



◆ **Nonprofit Organizations** – Although nonprofit organizations may be exempt from federal taxes, they are not *generally* exempt from taxes in Washington. However, certain qualified nonprofit organizations may be exempt from the retail sales, business and occupation, and/or property taxes. (Refer to *Information on Washington's Tax Structure – Nonprofit Organizations*.)

◆ **Warehouse Sales Tax Exemption** – Certain construction costs, including materials, labor and services associated with construction of warehouses and grain elevators are exempt from sales tax. The warehouse must be 200,000 or more square feet and grain elevators must have at least one million bushels of storage capacity. The exemption covers either 50 percent or 100 percent of the construction costs, depending on size. This exemption does not cover local sales tax, only the 6.5 percent state sales tax. (Refer to Special Notice – *Warehouse Sales Tax Exemption*.)

CREDITS

Bad Debt Tax Credit (Schedule B):

A Bad Debt Tax Credit is allowed for retail sales tax that has been remitted to the Department, but has become worthless or uncollectible and written off for Federal Internal Revenue Service (IRS) purposes. Completion of Schedule B is necessary if the sales tax rate at the time of sale is different from the rate on the tax return.

Other Credits:

Credit Memorandum: Credit memorandums received from the Department of Revenue for previously overpaid taxes.

Sales Tax Paid to Other States: If you acquire tangible personal property and paid sales or use tax to another state before using the property in Washington, you may take a credit for the amount of tax paid in the other state against the Washington use tax owed.

DEFERRALS

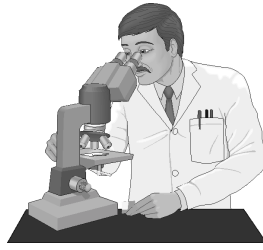
Distressed Area Sales/Use Tax Deferral Program:

The Distressed Area Sales/Use Tax Deferral Program grants a deferral of sales/use tax for manufacturing, research and development, or computer-related businesses (excluding light and power businesses) locating in specific geographical areas. The sales/use taxes on qualified construction and equipment costs are waived when all qualifications are met for a specified period of time. The program expires on July 1, 2004. (Refer to *Information*

on Washington's Tax Structure – Distressed Areas Sales/Use Tax Deferral Program.)

High Technology Sales/Use Tax Deferral:

Businesses in the following research and development technology categories may be eligible for a sales/use tax deferral. To be eligible, they must start new research and development or pilot scale manufacturing operations, or expand or diversify a current operation by expanding, renovating or equipping an existing facility anywhere in Washington. The technology categories are:



- ◆ Advanced computing;
- ◆ Advanced materials;
- ◆ Biotechnology;
- ◆ Electronic device technology; and
- ◆ Environmental technology.

(Refer to *Information on Washington's Tax Structure – High Technology Sales/Use Tax Deferral*.)

SALES TAX COLLECTION PROCEDURES

Businesses report state and local retail sales tax on the *Combined Excise Tax Returns* on a monthly, quarterly, or annual basis. The Department assigns reporting frequencies based on the volume of sales and type of business.

Tax liability must be reported for all sales made during the reporting period on either the accrual or cash receipts basis of accounting. Sellers are liable for remitting the correct amount of tax, even if they did not collect the proper amount from the purchaser. All amounts collected are considered to be trust funds of the state.

Retail sales tax applies to the selling price of taxable transactions and must be separately stated on the billing to the customer. The advertised price may include the amount of tax, if indicated in the advertisement.

Upon request, the Department will provide sales tax rate charts indicating the amount of combined state and local tax for each selling price. Sellers must use the correct schedule for each location in which sales are made.

FOR MORE INFORMATION

For answers to specific questions about your retail sales tax liability, please contact your local Department of Revenue office or the Telephone Information Center. Their locations and telephone numbers are shown on the last page of this fact sheet, or you may write to:

Taxpayer Information and Education
Washington State Department of Revenue
Post Office Box 47478
Olympia, Washington 98504-7478
FAX (360) 664-0456

All business owners should make every effort to be fully informed of their tax liability. The final responsibility for proper tax reporting rests with the taxpayer.

PUBLICATIONS AND RULES

Following are some of the publications, forms, laws, and rules related to the retail sales tax:

PUBLICATIONS

- ◆ Guide to Completing the Washington State Combined Excise Tax Return
- ◆ Information on Washington's Tax Structure
 - Business and Occupation Tax
 - Distressed Area Sales/Use Tax Deferral Program
 - High Technology Sales/Use Tax Deferral
 - Manufacturer's Sales/Use Tax Exemption
 - Nonprofit Organizations
 - Resale Certificate
 - Use Tax

- ◆ Special Notice
 - Expanded Exemptions for Motion Picture and Video Production Companies
 - New Tax Exemption for Motion Picture and Video Production Companies
 - Warehouse Sales Tax Exemption
- ◆ Tax Return Information and Local Sales and Use Tax Changes
- ◆ Tax Topics (various articles)

FORMS

- ◆ Amended Combined Excise Tax Return
- ◆ Combined Excise Tax Return
- ◆ Master Application
- ◆ Resale Certificate

LAWS AND RULES

- ◆ Chapter 82.04.050 Revised Code of Washington (RCW) - Sale at retail - retail sale
- ◆ Chapter 82.08 Revised Code of Washington (RCW) - Retail Sales Tax
- ◆ Chapter 82.12 Revised Code of Washington (RCW) - Use Tax
- ◆ Chapter 82.14 Revised Code of Washington (RCW) - Local Retail Sales and Use Taxes
- ◆ Washington Administrative Code (WAC) 458-20-102 - Resale certificates
- ◆ WAC 458-20-107 - Selling price - Advertised prices including sales tax
- ◆ WAC 458-20-122 – Sales of feed, seed, fertilizer, spray materials, and other tangible personal property for farm use
- ◆ WAC 458-20-126 – Sales of motor vehicle fuel, special fuels, and nonpollutant fuel
- ◆ WAC 458-20-143 – Publisher of newspapers, magazines, and periodicals
- ◆ WAC 458-20-145 - Local sales and use tax
- ◆ WAC 458-20-169 - Religious, charitable, benevolent, nonprofit service organizations, and sheltered workshops

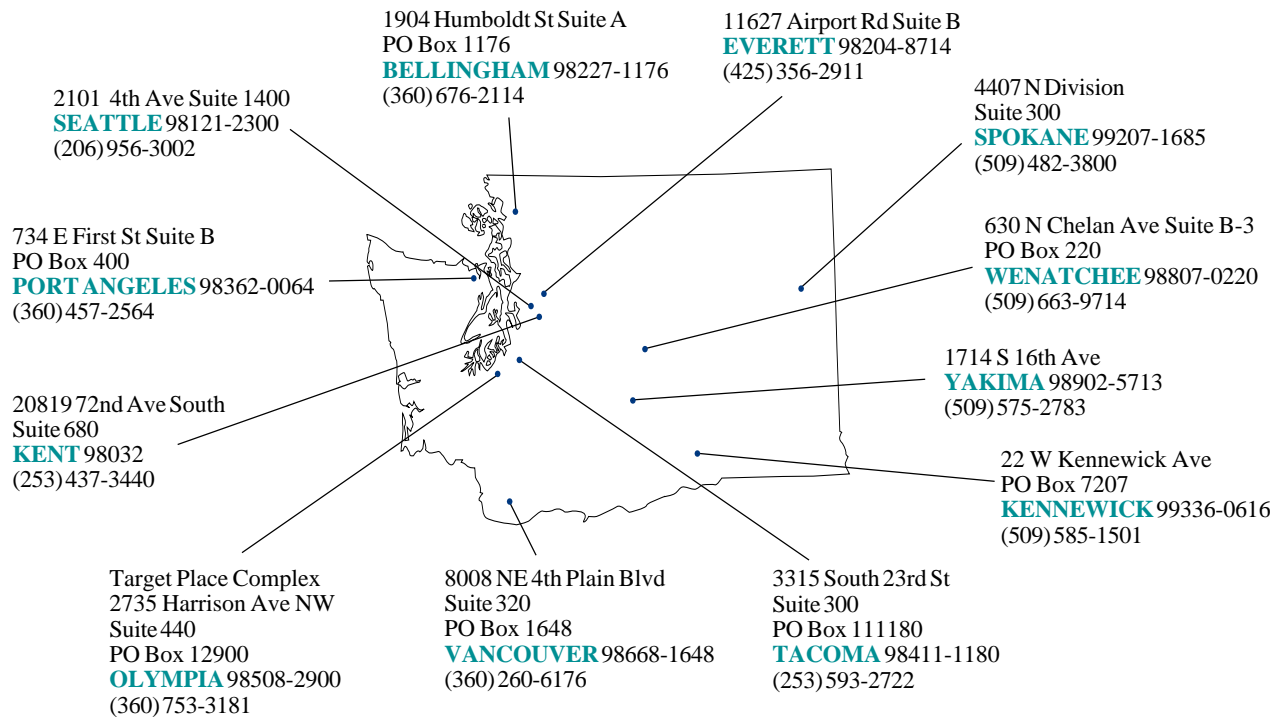
- ◆ WAC 458-20-170 - Constructing and repairing of new or existing buildings or other structures upon real property
- ◆ WAC 458-20-173 - Installing, cleaning, repairing or otherwise altering or improving personal property of consumers
- ◆ WAC 458-20-174 – Sales of motor vehicles, trailers, and parts to motor carriers operating in interstate or foreign commerce
- ◆ WAC 458-20-175 – Persons engaged in the business of operating as a private or common carrier by air, rail or water in interstate or foreign commerce
- ◆ WAC 458-20-189 - Sales to and by the state of Washington, counties, cities, school districts and other municipal subdivisions
- ◆ WAC 458-20-190 - Sales to and by the United States, its departments, institutions and instrumentalities - Sales to foreign governments
- ◆ WAC 458-20-197 - When tax liability arises
- ◆ WAC 458-20-209 – Farming for hire and horticultural services performed for farmers
- ◆ WAC 458-20-210 – Sales of agricultural products by farmers
- ◆ WAC 458-20-211 - Leases or rentals of tangible personal property, bailments
- ◆ WAC 458-20-239 – Sales to nonresidents of farm machinery or implements
- ◆ WAC 458-20-24001 - Sales and use tax deferral - Manufacturing and research/development facilities in distressed areas
- ◆ WAC 458-20-244 – Food Products
- ◆ WAC 458-20-247 - Trade-ins, selling price, sellers' tax measure
- ◆ WAC 458-20-254 - Record keeping

Many other administrative rules are available for specific activities or businesses. The Department of Revenue will provide copies of specific laws and rules upon request. Please call our Telephone Information Center for this service or visit our web site at <http://dor.wa.gov>.

Department of Revenue

Telephone Information Center
1-800-647-7706

FIELD OFFICE LOCATIONS



<http://dor.wa.gov>

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